

Message Text

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PAGE 01 LAGOS 00296 111344Z

ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 EB-07 FEAE-00 INT-05 GAO-01
FPC-01 TRSE-00 XMB-02 ERDA-05 AID-05 CEA-01 CIAE-00
CIEP-01 DODE-00 H-01 INR-07 L-03 NSAE-00 NSC-05
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 8595

USDOC WASHDC

INFO AMEMBASSY LONDON

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: BENC, ENRG, NI

SUBJECT: MAJOR PROJECT: STATUS NIGERIAN LNG PROJECTS

REF: STATE 1558

1. ACCORDING SHELL-BP MANAGING DIRECTOR E.E. HOTZ, RAPID PROGRESS BEING MADE ON FIRST LNG PROJECT. BONNY LNG COMPANY, LOCATED IN SHELL-BP BUILDING, NOW INCORPORATED IN NIGERIA, HAS HELD FIRST BOARD MEETING, AND IN PROCESS BEING FUNDED. HOTZ ANTICIPATES NOMINATION OF MANAGING DIRECTOR AND SEVERAL OTHER OFFICERS BY APRIL 1, 1977.

2. HOTZ SAID SHELL INTERNATIONAL IN THE HAGUE HAS RECOMMENCED WORK ON LNG PLANT DESIGN. BOTH SHELL INTERNATIONAL AND BP DISCUSSING SHIPPING AND CUSTOMERS WITH FMG. SHELL-BP NIGERIA AS SEPARATE OIL AND GAS PRODUCING ENTITY, HOLDING DISCUSSIONS WITH FMG ON DETAILS OF GAS PRODUCTION. FMG HAS DECIDED UNASSOCIATED GAS WILL BE PRODUCED IN SAME MANNER AS OIL,
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PAGE 02 LAGOS 00296 111344Z

RATHER THAN ON CONTRACT FEE BASIS, WITH COMPANIES OWNING 45 PERCENT OF PRODUCTION AND MAKING CORRESPONDING SHARE OF INVESTMENT. CRITICAL QUESTION, THEREFORE, IS IMPACT OF NIGERIA'S 85 PERCENT HYDROCARBON TAX RATE ON FINAL PRICE OF GAS. TO BREAK EVEN, GAS PRODUCER MUST CHARGE PRICE HIGHER THAN LNG PLANT CAN PROBABLY PAY AND STILL FIND CUSTOMERS. CONVERSELY, IF PRICE KEPT LOW ENOUGH TO COMPETE

FOR LNG CUSTOMERS, RETURN ON INVESTMENT TO PRODUCER WILL BE TOO LOW TO ATTRACT NECESSARY INVESTMENT. HOTZ SAID ISSUE MUST BE DECIDED BEFORE CUSTOMERS CAN BE LINED UP, AND HE BELIEVES TAX RATE WILL HAVE TO BE LOWERED.

3. DESPITE PROBLEMS, HOTZ FEELS DISCUSSIONS GOING WELL AND COULD BE COMPLETED IN SIX MONTHS. NEXT STEP WOULD BE TO FILE APPLICATION WITH FPC (EAST COAST US IS TARGET MARKET). ALTHOUGH SOME DESIGN SPECS MAY BE COMPLETED LATER IN 1977, NO FIRM PROGRESS ON ISSUING TENDERS FOR CONSTRUCTION AND EQUIPMENT SUPPLY CONTRACTS POSSIBLE UNTIL AFTER FPC RULING, WHICH MAY TAKE UNTIL MID-1978 OR BEYOND.

4. RE LOWER COST ESTIMATE IN DECEMBER 6 PIW, HOTZ SAID THERE IS FEELING THAT ORIGINAL ESTIMATES MAY HAVE BEEN BIT HIGH WITH REGARD TO SHIPPING, THAT SHIPS MAY BE AVAILABLE AT SLIGHTLY LOWER COST DUE INDUSTRY DOLDRUMS. HOWEVER, HOTZ SAID, THERE HAS BEEN NO FIRM, DETAILED REVISION OF COST ESTIMATE, AND AT MOMENT DOLLARS 2.8 BILLION FIGURE STILL VALID.

5. ACCORDING TO NEW MANAGING DIRECTOR OF NIGERIAN AGIP, C. PELAGATTI, AGIP, PHILLIPS, AND ELF HAVE SIGNED HEADS OF AGREEMENT WITH FMG UNDER WHICH THREE FOREIGN PARTNERS HAVE AGREED TO COMPLETE NEW FEASIBILITY STUDY OF SECOND LNG PROJECT. PELAGATTI SAID IT WILL TAKE UNTIL END OF 1977 TO COMPLETE STUDY.

6. ADDITIONAL IMPORTANT ELEMENT IN OUTLOOK FOR LNG PLANTS LIMITED OFFICIAL USE

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PAGE 03 LAGOS 00296 111344Z

IS PROGRESS ON GAS F GATHERING AND TRANSMISSION GRID. IAN BOWLER, CHAIRMAN OF IMEG, CONSULTANT TO FMG FOR GRID, TOLD PETROLOFF RECENTLY THAT SIGNING OF AGREEMENT WITH SHELL-BP WAS KEY DECISION SINCE FMG HAD BEEN UNWILLING TO MOVE AHEAD WITH GRID UNTIL AT LEAST ONE LNG PLANT AGREEMENT SIGNED. BOWLER SAID HIS FIRM HAS COMPLETED AND TURNED OVER TO FMG PRELIMINARY DESIGN STUDY FOR GRID, AND NOW EXPECTS TO GET ON WITH FULLY DETAILED DESIGN STUDY. BOWLER SAID HE BELIEVES IMEG WILL BE AWARDED CONTRACTS FOR BOTH DESIGN ENGINEERING AND OPERATION OF GAS GRID. IMEG PREVIOUSLY OPERATED IRANIAN GAS TRUNKLINE I FOR TWO YEARS. BOWLER SAID IT WILL BE LONG TIME BEFORE TENDERS ARE ISSUED FOR CONSTRUCTION AND EQUIPMENT SUPPLY FOR GAS GRID. HE ADDED EXPERIENCED PIPELINE BUILDERS ALREADY ESTABLISHED IN NIGERIA, LIKE WILLIAMS AND SEDCO/BEAN, STAND GOOD CHANCE WINNING GAS GRID CONSTRUCTION JOB. BOWLER SAID IMEG HAS ALSO DISCUSSED EQUIPMENT FOR GAS GRID WITH GE IN LONDON.

7. US COMPANIES INTERESTED IN CONSTRUCTION CONTRACTS ON

LNG PLANTS CERTAIN TO INCLUDE BECHTEL, WHICH BUILT PHILLIPS
LNG PLANT IN KENAI, ALASKA. PROCON, WHICH BUILT SHELL
PLANT IN BRUNEI, AND FLUOR ALSO LIKELY CONTENDERS. IN
NOVEMBER, DENNIS TAYLOR, MANAGING DIRECTOR, AND E.S. GARVEY
OF RALPH M. PARSONS LIMITED, PARSONS HOUSE, KEW BRIDGE
ROAD, BRENTFORD, MIDDLESEX, ENGLAND VISITED LAGOS SPECIF-
ICALLY TO LOOK INTO LNG CONTRACT. (TAYLOR ALSO INTERNATIONAL
SALES MANAGER FOR EUROPE-AFRICA-MID EAST OF PARSONS US
OFFICES, 100 WEST WALNUT, PASADENA, CALIFORNIA.) PARSONS
CONSIDERING PROPOSAL BUILD MODULAR LNG PLANT IN US AND
BARGE UNITS TO NIGERIA. PARSONS WOULD USE AIR PRODUCTS
COMPANY FOR PROCESS DESIGN.
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